

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 AGR-05 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02

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AMEMBASSY CAIRO

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PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, EEC

SUBJECT: EC-EGYPT COMMODITY SUPPLY AGREEMENT

REF: (A) EC BRUSSELS 04576 (B) EC BRUSSELS 02714

1. ON JULY 31, EC COMMISSION AGRICULTURE DEPUTY DIRECTOR GENERAL PIZZUTI TOLD US THAT RABOT AND WIJNMAALEN HAD JUST RETURNED FROM CAIRO WHERE THEY HAD FINAL DISCUSSIONS CONCERNING AN EC-EGYPT COMMODITY SUPPLY AGREEMENT. (REF. A AND B). AT HIS NOON PRESS CONFERENCE ON AUGUST 1, LARDINOIS CONFIRMED THE FOLLOWING INFORMATION ALSO GIVEN US BY PIZZUTI. THE TOTAL VALUE OF COMMODITIES COVERED BY THE AGREEMENT IS APPROXIMATELY \$250,000,000. QUANTITIES INVOLVED INCLUDE ONE MILLION TONS OF WHEAT FROM 1975-76 CROP TO BE SUPPLIED OVER A ONE-YEAR PERIOD, INCLUDING A MINIMUM 2000,000 TONS OF WHEAT FLOUR IN WHEAT EQUIVALENT.

OTHER COMMODITIES ARE TO BE SUPPLIED AS FOLLOWS:

- POWDERED SKIM MILK - 10,000 M.T. ANNUALLY AT COMMERCIAL PRICES, AND 10,000 M.T. ANNUALLY AT REDUCED PRICES FOR FOOD AID;
- GOUDA CHEESE - 3,000 M.T. ANNUALLY;
- GHEE - 10,000 M.T. ANNUALLY.

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OVER A THREE-YEAR PERIOD

-- REFINED SUGAR - 75,000 M.T. ANNUALLY.

2. PIZZUTI SAID THAT 10,000 TONS OF FROZEN BEEF WILL BE ADDED TO THE AGREEMENT SOMETIME LATER THIS YEAR.

3. WE OBTAINED ADDITIONAL INFORMATION FROM THIRD COUNTRY MISSION SOURCES AND, IN PARTICULAR, THE AUSTRALIAN MISSION WHICH RECEIVED ITS INFORMATION VIA ITS CAIRO EMBASSY DIRECTLY FROM MEKKAWI, VICE-CHAIRMAN OF THE EGYPTIAN GENERAL AUTHORITY FOR COMMODITY SUPPLY. MEKKAWI WAS REPORTEDLY ONE OF THE PRINCIPAL NEGOTIATORS OF THE AGREEMENT. THESE SOURCES SAY THAT EC SELLING PRICES, EXCEPT THOSE FOR POWDERED SKIM MILK AND BEEF, WILL BE THE EC TARGET PRICES EXPRESSED IN UNITS OF ACCOUNT PLUS OR MINUS 50 PERCENT OF THE DIFFERENCE BETWEEN THESE PRICES AND WORLD MARKET PRICES IF THE LATTER ARE HIGHER OR LOWER, RESPECTIVELY, THAN TARGET PRICES. FOR WHEAT, MINIMUM AND MAXIMUM PRICES OF US\$120 AND US\$175 PER METRIC TON, RESPECTIVELY, F.O.B. EUROPEAN PORTS, APPARENTLY ARE IMPOSED ON THE ABOVE FORMULA. A SIMILAR PRICE RANGE FOR BEEF WAS SET AT US\$800 TO US\$1,000 PER METRIC TON F.O.B. EUROPEAN PORTS. THESE PRICE RANGES ARE TO APPLY ONLY TO SUPPLIES MOVING DURING THE FIRST YEAR OF THE AGREEMENT. THEY ARE TO BE RENEGOTIATED FOR SUBSEQUENT YEARS. MEKKAWI REPORTEDLY SAID THAT HE EXPECTS THE COMMUNITY TO AGREE TO PAYMENT TERMS OF TWO YEARS AT A MAXIMUM 8.25 PERCENT INTEREST, AND THAT THE QUANTITIES SPECIFIED IN THE AGREEMENT COVER ONLY A FRACTION OF EGYPT'S REQUIREMENTS, LEAVING AMPLE ROOM FOR OTHER THIRD COUNTRY SUPPLIERS SUCH AS AUSTRALIA.

4. THE AGREEMENT MUST NOW BE APPROVED BY THE ARTICLE 113 COMMITTEE AND IS INTENDED TO BE SUBMITTED TO THE COUNCIL OF MINISTERS FOR FINAL APPROVAL IN SEPTEMBER.

5. THERE APPARENTLY IS SOME DIFFERENCE OF OPINION WITHIN THE COMMISSION OVER THE ADVANTAGES OF THIS AGREEMENT. ONE SOURCE REPORTS THAT SOAMES HAS RAISED QUESTIONS, SPECIFICALLY ABOUT THE POTENTIAL COST TO THE COMMUNITY, AND HAS ASKED FOR COST ESTIMATES. BUT A WELL-PLACED SOURCE IN LARDINOIS' CABINET TOLD US THAT THE AGREEMENT IS NOT ALTRUISTIC IN PURPOSE AND IS NOT INTENDED TO HELP EGYPT OUT OF ITS CURRENT BALANCE OF PAYMENT DIFFICULTIES.

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ON THE CONTRARY, LARDINOIS' ONLY MOTIVATION IS TO MOVE COMMUNITY WHEAT AND, TO A LESSER EXTENT, OTHER AGRICULTURAL COMMODITIES.

6. LARDINOIS SAID IN HIS PRESS CONFERENCE OF AUGUST 1 THAT THERE WAS NO CREDIT IN THE PACKAGE NEGOTIATED WITH THE EGYPTIANS SIMILAR TO PL480 CONCESSIONAL TERMS. THIS DOES NOT APPEAR TO EXCLUDE TERMS SUCH AS THOSE DESCRIBED IN PARA 3 ABOVE. MEKKAWI'S INFORMATION MAY REPRESENT A STILL-TO-BE-NEGOTIATED ELEMENT.

LARDINOIS ALSO SAID THAT A SUCCESSFUL AGREEMENT WITH EGYPT COULD
SET A PRECEDENT FOR AGREEMENTS WITH ALGERIA AND ISRAEL. MORRIS

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